



THE CITY OF
SAN DIEGO

CITY ADMINISTRATION BUILDING • 202 C STREET • SAN DIEGO, CALIF. 92101

OFFICE OF THE
AUDITOR AND COMPTROLLER

November 27, 1996

Honorable Mayor Susan Golding,
City Council and the Citizens of the
City of San Diego, California

The Comprehensive Annual Financial Report of the City of San Diego (City) for the Fiscal Year Ended June 30, 1996, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City and its related agencies. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the City and its related agencies. All disclosures necessary to enable the reader to gain an understanding of the City's, and its related agencies, financial activities have been included.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the City's organizational chart and a list of principal officials. The financial section includes the general purpose financial statements and the combining, individual fund and account group financial statements and schedules, as well as the independent auditors' report on such financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The City is required to undergo an annual Single Audit in conformity with the provisions of the Single Audit Act of 1984 and U.S. Office of Management and Budget Circular A-128, "Audits of State and Local Governments." Information related to this Single Audit, including the schedule of federal financial assistance, findings and recommendations, and independent auditors' reports on the internal control structure and compliance with applicable laws and regulations, are included in a separate Single Audit report.

In evaluating how to define the governmental reporting entity, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," under which the financial statements include all the organizations, activities, functions, and component units for which the City (Primary Government) is financially accountable.



Accordingly, the following component units are incorporated in the accompanying financial statements:

- City of San Diego Metropolitan Transit Development Board Authority
(a joint-powers agency)
- Public Facilities Financing Authority
- San Diego Convention Center Corporation
- San Diego Data Processing Corporation
- San Diego Facilities and Equipment Leasing Corporation
- San Diego Housing Authority
- San Diego Industrial Development Authority
- San Diego Open Space Park Facilities District #1
- San Diego Planetarium Authority (a joint-powers agency)
- San Diego Stadium Authority (a joint-powers agency)
- Redevelopment Agency of the City of San Diego
- Centre City Development Corporation
- Mid-City Development Corporation
- Southeastern Economic Development Corporation

The City provides a full range of services. These services include police and fire protection; sanitation services; the construction and maintenance of streets and infrastructure; recreational activities and cultural events; the expansion, maintenance, and operation of the water utilities including sewer.

The City of San Diego operates and is governed by the laws of the State of California and its own Charter which was first adopted by the electorate in 1931. The Charter provides for a Council-Manager form of government. The City Council is comprised of eight members elected by district to serve overlapping four-year terms. The City Council, which acts as the City's legislative and policy-making body, appoints the City Manager, who is the City's chief administrator and is responsible for implementing the policies and programs adopted by the City Council. The Mayor, who presides over the City Council, is elected at large to serve a four-year term.

ECONOMIC CONDITION AND OUTLOOK

The San Diego economy for 3 consecutive years has continued to show signs of a sustained growth. This improvement began during the second half of Fiscal Year 1994 and continued through Fiscal Years 1995 and 1996. According to the San Diego Chamber of Commerce, during calendar year 1996, the San Diego economy should realize its most favorable economic performance of the decade.

San Diego's Gross Regional Product (GRP), the total valuation of goods and services produced in the county, was estimated at \$73.6 billion in calendar 1995, up 7.3% from calendar 1994. After adjusting for inflation, real GRP was up 4.6%. Total taxable sales reached \$23.4 billion in San Diego County during calendar 1995, up 4.7% from calendar 1994. San Diego's 1995 per capita retail sales figure of \$6,062 was up 2.2% from 1994. International Trade recorded strong gains during 1995, with total exports of \$6.1 billion, up by 8.9% from 1994.

The San Diego Economic Research Bureau is forecasting a continued growth for the San Diego area during calendar 1996. Also, the UCLA Business Forecast projects California to maintain a steady rate of growth, at least through calendar 1997. Our own budget forecast for Fiscal Year 1997 General Fund revenues, excluding property taxes which remain flat, anticipates general overall growth of 2.3% relative to Fiscal Year 1996 actual revenue.

Employment

The unemployment rate is a critical indicator of relative strength in the local economy. Reflecting an improved job market, the unemployment rate fell from an average of 7.7% during Fiscal Year 1994 to 6.8% during Fiscal Year 1995 and down to 5.5% at the end of Fiscal Year 1996. After losing jobs during the 1991 to 1993 period, the San Diego economy has recovered to the point that it has regained all of the jobs lost during this period. Employment levels increased during 1995, with nonagricultural wage and salary employment averaging 974,900, an increase of 19,600 jobs or 2.1% over 1994's revised total of 955,300. The increase was due to gains in services, trade, government and construction. Job growth continued into Fiscal Year 1996, with the monthly average up by 20,300 jobs over Fiscal Year 1995.

Although manufacturing has declined as a share of total San Diego employment over the years, it remains the single most important component of the local economy. After dropping sharply during most of the 1990's, due primarily to the loss of defense related jobs, San Diego's manufacturing sector has definitely stabilized. Between Fiscal Year 1994 and Fiscal Year 1995, manufacturing jobs were down by only 1,300. This stabilizing trend continued into Fiscal Year 1996, with the annual average for manufacturing employment down by only 100 jobs.

Construction, like the manufacturing sector, is a major source of high wage employment that stimulates other sectors of the economy. Construction employment began to climb during the second half of Fiscal Year 1995 and continued to register year-to-year gains in Fiscal Year 1996, with the monthly average up by 2,800 jobs.

Expansion in the "high tech manufacturing and research" component of the City's economic base has been led by the rapid emergence of telecommunications. According to the California Employment Development Department (EDD), between 1991 and 1995 County wide employment in the communications equipment manufacturing sector increased by 35%. According to EDD, between 1991 and 1995, County wide employment in the health technology industry grew by 26%.

The Help Wanted Index is an indicator of the hiring plans of local employers. This index began to improve during the second half of Fiscal Year 1994, and carried that growth over into Fiscal Year 1995. For the first eight months of Fiscal Year 1996, the monthly Help Wanted Index was up 5.8%.

Tourism

Growth in local tourism has been greatly aided by a strong convention market. Spending for lodging, meals and a variety of other goods and services by attendees at conventions has a significant impact on the local economy. Estimated spending by attendees at conventions held at the San Diego Convention Center totaled \$246.6 million during Fiscal Year 1995, up by 36.3% over Fiscal Year 1994.

The San Diego Convention Center, approximately 75% of the County's hotel and motel rooms and all of the County's major tourist attractions, including the world-renowned San Diego Zoo, the San Diego Wild Animal Park and Sea World, are located in the City. Other attractions located in the City include the Cabrillo National Monument on Point Loma, the historic Gaslamp Quarter in the downtown area, the Old Town State Park and Balboa Park - home to the San Diego Zoo and a host of other cultural and recreational activities. According to the San Diego Chamber of Commerce, total attendance at all of these attractions, excluding Sea World, totaled 17.8 million during calendar year 1995, up 5.3% from calendar year 1994.

San Diego's visitor industry recorded strong growth during 1995 with total visitor spending in calendar 1995 estimated at \$3.8 billion, up 4.4% from the previous year's \$3.6 billion. Hotel occupancy rates and attendance at local attractions were all up from the previous year. The gains in tourism can also be attributed to continued strength of the U.S. and California economies.

Other Indicators

Based on data compiled by the U.S. Dept. of Commerce for the San Diego Customs District, which includes San Diego and Imperial Counties and a portion of Riverside County, during the period from calendar years 1991 through 1995, the County experienced substantial growth in the volume of international trade. During calendar year 1995, the total dollar value of international trade passing through the San Diego Customs District totaled \$15.0 billion, up 15% from calendar year 1994, with exports up 9% and imports up 20%.

Total permit valuation is an indicator of overall construction activity. Following several years of declining activity, total permit valuation began to turn around in Fiscal Year 1994. The permit valuation total grew by 1.2% during Fiscal Year 1995 and was up by 3.9% during Fiscal Year 1996.

Permits for commercial construction, which include buildings for location of retail, office or industrial purposes, are a key indicator of present and future economic conditions. After several years of little growth, commercial construction rebounded during Fiscal Year 1995, with commercial permit valuation up 29%. During Fiscal Year 1996, the commercial valuation total continued to trend higher, up 16.8%.

The number of new business licenses issued is an indicator of general business activity. After showing little change between Fiscal Years 1993 and 1994, the volume of new issuances increased sharply in Fiscal Year 1995, up 10.9%. The rate of growth moderated during Fiscal Year 1996, ending up 2.0%.

The statewide total of new vehicle registrations is one of the factors determining the amount of Motor Vehicle License Fees (MVLFF), a major source of General Fund revenues. New registrations were up by 4.9% in Fiscal Year 1995, and up by 2.7% in Fiscal Year 1996.

MAJOR ACCOMPLISHMENTS/ACTIVITIES

For The Year

By the end of Fiscal Year 1996, the City of San Diego found itself entering the international spotlight with the 1996 Republican National Convention to be held at the San Diego Convention Center. Through extensive pre-event planning, the City worked with the Republic National Committee coordinating the efforts of a multitude of community and national organizations resulting in a highly enjoyable and smoothly run event with nationally acclaimed security and transportation. Attendance at the convention totaled an estimate 30,000 including delegates and media representatives adding approximately \$83 million to the local economy during August 1996.

On November 9, 1995, the Environmental Protection Agency (EPA) granted the City's request for relief from secondary treatment requirements. This action will ultimately save rate payers an estimated \$3 billion.

In December 1995, \$350,000,000 in Sewer Revenue Bonds were issued, at an interest rate matching our lowest in 30 years, by the Public Facilities Financing Authority for the purpose of paying for design, engineering, land acquisition and construction costs of capital improvements to the Metropolitan Wastewater System of the City of San Diego.

The City, in cooperation with San Diego Metropolitan Transit Development Board (MTDB), has established a light-rail system that connects San Diego's downtown with outlying communities in the eastern and southern portions of the county. The trolley system is steadily expanding. A \$111.2 million extension that will provide service from downtown to the historical Old Town State Park, which features an 1871 vintage terminal, opened in June 1996. In addition, construction is in progress on the next extension, which will go from Old Town through the Mission Valley area, ending at San Diego Jack Murphy Stadium. The trolley line to San Diego Jack Murphy Stadium will be available by the time the Super Bowl XXXII is held in San Diego in January 1998. The City has also hosted the Super Bowl XXII in January 1988 which generated approximately \$130 million in local revenues.

In a continuing effort to enhance the educational, cultural, business, and recreative interests of the public, the Malcolm X Branch Library opened January 1996 and the Rancho Bernardo Branch Library opened June 1996.

During Fiscal Year 1996, the City continued its successful programs to create opportunities for new businesses and assist existing businesses. The City's Economic Development Services (EDS) Department, through the Business Expansion and Retention (BEAR) Program, directly assisted 1,360 San Diego Businesses and provided \$16.5 million in business financing and \$1.1 million in various business fee reductions. These actions helped retain or expand 80 companies, create or retain 9,593 jobs, and facilitated additional private investment of nearly \$100 million in the San Diego economy.

Under the Small Business Enhancement Program, a total of \$1 million was directly earmarked to fund a small business development program. A total of \$275,000 in EmTek Seed Capital Loans were approved to help local companies develop, manufacture and market their products.

Through the San Diego Regional Technology Alliance and area partners, EDS staff helped create and retain over 10,350 jobs by assisting local companies obtain matching grant funds and providing related assistance.

In order to stimulate economic development and affordable housing, the City Council reduced water and sewer capacity charges. This move is expected to have a combined \$20.5 million positive impact through reduced costs annually to the development industry.

After two years of operation, the Automated Refuse Collection Program has resulted in savings of approximately \$1.5 million in personnel and equipment related expenses. It is anticipated that the program will reduce City refuse collection costs by a total of \$18 million over an initial ten-year period ending in 2004. After the ten-year period, savings resulting from the automated program, compared to the manual refuse collection system, are expected to be \$6 million annually.

The City's Redevelopment Program continued to move ahead with efforts to reverse conditions of blight in several areas of the city. During Fiscal Year 1996, the Redevelopment Program coordinated construction of the Mid-City Police Community Facility, the first phase of the City Heights Urban Village project in the agency's City Heights project area.

Centre City Development Corporation (CCDC), the City agency responsible for redevelopment in the downtown area, completed three residential projects during Fiscal Year 1996, providing 147 low and moderate income units and 7 market rate units. Construction is also underway on downtown's first grocery store, the 44,000 square foot Ralph's Village Market.

To provide recreational opportunities in the downtown area, two CCDC sponsored parks, Gaslamp Quarter Park and the Children's Park, were completed during the fiscal year. Planning and design work was also initiated for the Little Italy and India Street district improvements.

Southeastern Economic Development Corporation (SEDC), the City agency responsible for redevelopment in southeast San Diego, has concluded work on the commercial section of the 252 Corridor, a massive \$27 million restoration project. The 12-acre Southcrest Park Plaza shopping center is now open for business and is anchored by a new Lucky supermarket. Tenants also include Sav-On Drugstore, Bank of America, and Parts USA. This commercial development has produced over one hundred new jobs.

The San Diego Housing Authority continued its efforts to provide affordable housing to low and moderate income families, seniors, disabled, and other populations with special needs, including the homeless and people with AIDS:

- Completed the 38-unit Plaza Arizona Condominium development which will provide affordable housing for low-income home buyers.
- Through the Mortgage Credit Certificate Program, nearly 600 first-time home buyers were able to purchase homes during Fiscal Year 1996.
- In a continuing effort to revitalize older San Diego communities, assisted in the rehabilitation of 431 units throughout the city. On behalf of 8,800 participants in the Rental Assistance Program, the San Diego Housing Commission contributed nearly \$50 million to property owners as rental subsidies.
- Began construction of three new public housing developments during Fiscal Year 1996. The first of three sites, the Saranac Townhomes, was completed and fully occupied in August. Construction of the largest of the developments, the Fulton Street Townhomes, is expected to be completed with move-in scheduled to be completed in Fiscal Year 1997.

After Fiscal Year

Under the latest recommendations of the Base Closure and Realignment Commission (BRAC '95), which have been approved by the President, the City will actually see an increase in local military spending. Of major significance will be the relocation of the U.S. Space and Naval Warfare Systems Command (SPAWAR) from Virginia to San Diego. According to the San Diego Chamber of Commerce, SPAWAR should have a substantial direct effect on the economies of both the City and the County, with an annual budget of \$4 billion, including \$2.8 billion in private sector contracts, and a workforce of 1,133 military and civilian personnel.

In addition to the SPAWAR recommendation, BRAC '95 also recommended the closure of the Long Beach Naval Shipyard, which had 3,100 civilian employees. The shutdown of the Long Beach facility should result in increased activity for the City's shipyards. According to the San Diego Chamber of Commerce's 1995 San Diego County Business Directory, of the seven shipbuilding and repair firms

in the County with more than 100 employees, six are located in the City, including the largest, the National Steel and Shipbuilding Company, with more than 3,000 employees.

With the conveyance of the Naval Training Center site to the City in the Spring of 1997, the City will move forward with plans for the reuse of the 500 acre site. Under the reuse plan approved by the City Council, the site will be developed for a variety of purposes including market priced residential housing, park and recreation uses, hotels, airport expansion and institutional uses, including a public safety center.

Actions by the Mayor, City Council and City Manager have reflected the City's commitment to delivering the very best municipal services through a partnership of residents and employees. Fiscal Year 1997 reflects these priorities by funding several projects and programs. The highlights include:

- Twenty-one additional police officers will be utilized to enhance Neighborhood Policing.
- \$1.5 million for maintenance and staffing of new public facilities.
- An additional \$1.5 million for street and sidewalk improvements.
- Funding to complete the acquisition of 22 new fire trucks and engines and 19 new ambulances.
- Funding for property acquisition and initial phases of development to construct a new Main Library.
- Improvements and expansion of San Diego Jack Murphy Stadium.
- Expansion of the San Diego Convention Center total gross square footage to approximately 1,000,000 square feet. According to a study conducted by CIC Research, Inc. and Price Waterhouse, this expansion is projected to increase the Convention Center's annual economic impact (from direct and indirect spending) to the San Diego region (comprised of the City and the balance of County) from the current \$641 million to \$1.02 billion.

The Fiscal Year 1997 Annual Budget reflects reductions resulting from Zero Based Management Reviews:

- \$850,000 in efficiencies achieved with the Equipment Division relative to fleet operations and maintenance.
- \$2.1 million reduction in purchase of replacement vehicles based on a reevaluation of operational need.
- \$260,000 reduction in General Fund vehicle operating expenses based on approximately 100 vehicles taken out of service to date.
- Approximate \$1.0 million reduction in staffing for fleet maintenance functions (\$500,000 General Fund) to be identified through the Division's empowerment program of team development.

In August of 1996, the San Diego Facilities and Equipment Leasing Corporation issued \$33,430,000 in Certificates of Participation for Balboa Park and Mission Bay Capital Improvements.

The residential section of Southeastern Economic Development Corporation's (SEDC) plan has come together with the completion of a Disposition and Development Agreement (DDA) with a private developer which will see 100 homes constructed in two phases. Southcrest Park Estates broke ground in May 1996 with the first phase of the project to begin construction in the late fall of 1996. In addition, SEDC has concluded a DDA with Lincoln Park Associates for the construction of 56 homes scheduled to begin in January 1997.

FINANCIAL INFORMATION

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Single Audit. As a recipient of federal, state and county financial assistance, the City also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluations by management and the internal audit staff of the City. As part of the City's Single Audit, described earlier, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's Single Audit for the fiscal year ended June 30, 1995, provided no instances of material weaknesses in the internal control structure or significant violation of applicable laws and regulations.

The Single Audit for the fiscal year ended June 30, 1996, is currently in progress. The City's management is of the opinion that the results of the Single Audit for Fiscal Year 1996 will not change from that of the previous year.

Budgeting Controls. In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. Activities of the General Fund, certain Special Revenue Funds and General Obligation Debt Service Funds are included in the annual appropriated budget. Project-length financial plans are adopted for the Capital Projects Funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function and activity or object class within an individual fund. The City Auditor and Comptroller works closely with the Financial Management Department to monitor fund balances, as well as revenue projections, throughout the fiscal year. Variations from budget plans are alleviated in a number of ways, including expenditure reductions or deferrals. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control.

Encumbered amounts are reported as reservations of fund balances since the commitments will be honored in subsequent years.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

General Government Functions. The following schedule presents (in thousands) a summary of **General Fund, Special Revenue Funds** and **Debt Service Funds** revenues for the fiscal year ended June 30, 1996, and the amount and percentage of increases and decreases in relation to prior year revenues.

<u>Revenues</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Dollar Increase (Decrease) from FY 1995</u>	<u>Percent Increase (Decrease)</u>
Property Taxes and Special Assessments	\$154,845	19.3%	\$ (193)	(.1)%
Other Local Taxes	246,968	30.8	18,498	8.5
Licenses and Permits	27,570	3.4	(1,617)	(5.5)
Fines, Forfeitures and Penalties	17,496	2.1	(941)	(5.1)
Revenue from Use of Money and Property	64,919	8.1	5,018	8.4
Revenue from Federal Agencies	103,142	12.9	(1,101)	(1.1)
Revenue from Other Agencies	73,354	9.2	8,228	12.6
Revenue from Private Sources	25,818	3.2	19,145	286.9
Charges for Current Services	80,015	10.0	4,160	5.5
Other Revenue	<u>7,955</u>	<u>1.0</u>	<u>(1,471)</u>	<u>(15.6)</u>
Total	<u>\$802,082</u>	<u>100.0%</u>	<u>\$49,726</u>	

Other Local Taxes revenue increase is primarily attributed to increased Transient Occupancy Tax and Sales Tax revenues.

Licenses and Permits revenue decrease is primarily attributed to a reduction in the business license fees for small businesses.

Fines, Forfeitures and Penalties revenue decrease is primarily attributed to a reduction in Federally Seized and Forfeited Assets revenue.

Revenue from Use of Money and Property increase is primarily attributed to higher cash balances available for investment during the fiscal year coupled with higher interest rates.

Revenue from Other Agencies increase is primarily attributed to an increase in Public Facilities Financing Authority installment purchase payment receipts.

Revenue from Private Sources increase is primarily attributed to recoveries of delinquencies resulting from foreclosure proceedings against property in the First San Diego River Improvement Project Assessment District.

Revenue classified as **Charges for Current Services** are generally based on the principle that users of special government services should pay for those costs, therefore, as costs increase, the charge for current services increases.

Other Revenue decrease is primarily attributed to a one-time State sales tax rebate and San Diego Gas and Electric Franchise Fee settlement received in the prior fiscal year.

The following schedule presents a summary of **General Fund, Special Revenue Funds** and **Debt Services Funds** expenditures (in thousands) for the fiscal year ended June 30, 1996 and the percentage of increases and decreases in relation to prior year amounts.

<u>Expenditures</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Dollar Increase (Decrease) from FY 1995</u>	<u>Percent Increase (Decrease)</u>
Current:				
General Government	\$83,477	10.5%	\$(5,439)	(6.1)%
Public Safety	272,137	34.1	20,710	8.2
Libraries	19,339	2.4	342	1.8
Parks, Recreation and Culture	84,348	10.6	6,932	9.0
General Services	76,190	9.5	(222)	(.3)
Engineering and Development	30,310	3.8	2,140	7.6
Housing and Community Development	101,925	12.8	3,883	4.0
Other	11,108	1.4	(264)	(2.3)
Capital Projects	35,298	4.4	10,398	41.8
Debt Service:				
Principal	35,496	4.4	10,636	42.8
Interest	<u>49,018</u>	<u>6.1</u>	<u>9,617</u>	24.4
Total	<u>\$798,646</u>	<u>100.0%</u>	<u>\$58,733</u>	

Pursuant to Article XIII B of the California Constitution (known as the Gann Limit) the City must compute an annual appropriations limit which places a ceiling on the total amount of tax revenues the City can actually appropriate annually. This limit is adjusted each year using the following factors: (1) the percentage change in California Per Capita Income, or the change in the City's non-residential assessed valuation due to new construction, whichever is greater and (2) the percentage change in the Citywide or Countywide population, whichever is greater. In November 1994, voters approved a waiver under which the City was permitted to increase its limit by \$50 million. This waiver covers the four year period Fiscal Year 1996 to Fiscal Year 1999.

The City's total appropriation was \$1,176,970,208 for Fiscal Year 1996 as compared to \$1,272,251,515 in Fiscal Year 1995. A portion of this appropriation was derived from proceeds of taxes as defined by Article XIII B (GANN) of the State Constitution. The City did not exceed the total (GANN) appropriation limit at fiscal year end. The Fiscal Year 1996 General Fund budget was \$489,513,019 as compared to \$483,992,326 in Fiscal Year 1995.

The Community Development Block Grant is received by the City of San Diego on an annual basis under Title I from the U.S. Department of Housing & Urban Development and is administered by the Community Services Program of the City Manager's Department. The annual entitlement for the program year 1996, CDBG Year XX, was approximately \$19,015,000 as compared to approximately \$19,598,000 for the program year 1995.

General Fund Balance. The undesignated fund balance of the General Fund was approximately \$11,571,000 at fiscal year-end. This was comprised of approximately \$3,711,000 of revenue and transfers over estimate; approximately \$2,105,000 in appropriation savings, net of designated for subsequent years' expenditures; and approximately \$5,755,000 of Fiscal Year 1995 unappropriated fund balance.

Capital Projects Fund Balances. The undesignated fund balances for the **City Oversight Unit Capital Projects Funds** totaled approximately \$53,906,000 at fiscal year-end. The individual balances are generally restricted for the established purposes of their specific fund category. The primary sources for financing the City's Capital Improvement Program are sales (transnet) tax, developer impact fees, facility benefit assessments, and land sales. The following schedule presents (in thousands) a summary of the **City Oversight Unit Capital Projects Funds** undesignated fund balances as of June 30, 1996. A large portion of these balances have been included for appropriation in the City's Fiscal Year 1997 Six Year Capital Improvements Program.

<u>Fund Category</u>	<u>Amount</u>	<u>General Use</u>
Capital Outlay	\$ 1,294	Public Improvements and Acquisition
General Obligation Bonds	2	Public Improvements
Other Construction:		
Facility Benefit Assessment Districts	21,783	District Public Improvements
1915 Act Districts	11,869	District Public Improvements
Development	7,876	District Public Improvements
Park Service Districts	4,592	District Park Improvements
Other Capital Projects	<u>6,490</u>	Various Capital Improvements
Total	<u>\$53,906</u>	

Tentative long-term plans for these funds are generally reflected through development plans and/or the annual preparation of the Six Year Capital Improvements Program. An annual budget is adopted for the Capital Outlay Fund reflecting related minor non-capitalized costs and the net change to its long-term capital plan for the current year. The changes in the Capital Improvements Program between Fiscal Year 1995 and Fiscal Year 1996 reflected projected scheduling adjustments as well as available funding.

Enterprise Operations. The City Oversight Unit enterprise operations are comprised of eight separate and distinct activities: Airports, consisting of Brown Field and Montgomery Field; The Centre; City Store; Development Services; Environmental Services; Golf Courses, consisting of Balboa and Torrey Pines courses; Sewer Utility; and Water Utility. The fiscal year-end unreserved retained earnings of approximately \$901,807,000 for the City's enterprise activities reflects approximately \$7,981,000 available for appropriation with the balance reflecting investments in enterprise assets, continuing project appropriations, encumbrances and tentative future commitments.

The following schedule displays the undesignated amounts (in thousands) available for appropriation at fiscal year-end for enterprise activities.

<u>Activity</u>	<u>Amount</u>
Airports	\$ 296
The Centre	31
City Store	19
Development Services	3,384
Environmental Services	3,812
Golf Courses	439
Sewer Utility	-0-
Water Utility	<u>-0-</u>
Total	<u>\$7,981</u>

Airports net loss for the year was approximately \$41,000 as compared to a net loss of \$262,000 in the previous year. This change is due primarily to a decrease in operating expenses of \$199,000 as the result of cost cutting measures taken by the Airport Division during their participation in the competition program and the end of the Twinports Study.

Net income for The Centre was approximately \$60,000 as compared to \$29,000 the prior year. Most of the increase is associated with an expanding client base while expenses have stabilized in the 2nd full year of operations.

There was a net loss for City Stores of approximately \$35,000 in Fiscal Year 1996 as compared to \$44,000 in income the prior year. The revenues decreased by \$125,000 while expenses decreased only \$43,000. This was due to the additional cost associated with opening the Gaslamp store and the unexpected loss of the store front space in Horton Plaza, one of the more successful locations.

Development Services net loss for the year was approximately \$739,000 as compared to net income of \$599,000 in the previous year. This change is largely due to implementation of Process 2000, a system designed to re-engineer and simplify the development and construction review process. As a result of the Development and Environmental Planning function being transferred from the General Fund to the Enterprise Fund due to the restructuring program, there was a related increase of approximately \$5,000,000 to both revenues and expenses over last fiscal year.

Net income from Environmental Services was approximately \$16,360,000 as compared to \$19,341,000 the prior year. The primary changes are due to a \$3,700,000 decrease in disposal fees due to a decrease in waste being received at the landfill with a related \$1,100,000 decrease in operating expenses due to the reduction in volume at the landfill.

Golf Courses net income for the year was approximately \$1,413,000 as compared to \$429,000 in the previous year. This change is the net result of an increase in operating revenues of \$1,300,000 and an increase in operating expenses of \$300,000 resulting from the Balboa Park Course being back in operation for the entire year after being closed for improvements for almost half of the previous fiscal year.

Sewer Utility net income for the year was approximately \$41,593,000 compared to last year's net income of \$22,209,000. The change was substantially due to 1) a one-time \$25,700,000 write-off in the prior fiscal year of discontinued construction projects in the prior year; 2) sewer service charge revenues increasing \$2,000,000; 3) the Public Facilities Financing Authority Fund transferring \$6,000,000 of interest earnings as reimbursement for construction costs; and 4) interest expense on long-term debt of \$588,285,000 increasing \$7,000,000.

Water Utility net income for the year was approximately \$5,694,000 as compared to \$376,000 in the previous year. This change is primarily due to a \$5,400,000 increase in gains from the sale of fixed assets and increases in other non-operating revenues.

Pension Trust Fund Operations. The City Employees' Retirement System (CERS) continued to maintain a sound financial status in Fiscal Year 1996. Operating revenues of approximately \$223,867,000 were realized as compared to \$173,607,000 in Fiscal Year 1995. A large portion of the increase in realized revenues resulted from the increase in market interest rates combined with an increased asset pool available for investment. Included in these amounts were approximately \$62,309,000 and \$59,057,000 in contributions for Fiscal Year 1996 and 1995 respectively.

Operating expenses for the year were approximately \$71,008,000 as compared to approximately \$65,741,000 in Fiscal Year 1995. This increase in operating expenses is generally the result of annual cost of living adjustments, adjustments in benefits, and normal growth in the number of retirees.

The latest annual actuarial valuation as of June 30, 1995, showed pension funding at an 86.8% level compared to 88.5% at June 30, 1994.

Debt Administration. At June 30, 1996, the **City Oversight Unit** had a small number of debt issues outstanding. These issues included approximately \$28,980,000 of general obligation bonds and approximately \$125,650,000 of special assessment debt. The City has maintained its AAA rating from Moody's Investors Service and AA+ rating from Standard & Poor's on general obligation bond issues.

Cash Management. The City Treasurer is responsible for the investment of the City's cash. Eligible investments are obligations of the U.S. Treasury and U.S. Agencies, demand deposits, negotiable certificates of deposit, bankers' acceptances, medium-term corporate notes, repurchase agreements, reverse repurchase agreements and commercial paper in compliance with Section 53601-53635 of the state government code. The City's cash is invested under a pooled money concept, with maturities planned to coincide with projected needs with the primary objective of preserving principal. During Fiscal Year 1996, the average daily pooled portfolio balance was approximately \$905 million with a weighted average maturity of 461 days. Most of these monies are held in funds that have restricted uses. The largest balances, for instance, are found in the Utility Funds. The decrease in average pooled portfolio balances have been attributed to expediting utility projects and other capital expenditures to stimulate the local economy. The average earned income yield on pooled investments was 5.897% as compared to 5.10% in the prior year.

The City Treasurer's investment policy has an objective to minimize credit and market risks while maintaining a competitive yield on its portfolio. The City may transact business only with banks, savings and loans, and investment securities dealers who are primarily dealers regularly reporting to the New York Federal Reserve Bank. Exceptions to this rule are allowed only upon written authorization of the City Treasurer. All nonnegotiable time certificates of deposit and demand accounts in excess of the amounts insured by the Federal Deposit Insurance Corporation are required to be fully collateralized with mortgages or eligible securities in accordance with state law. The City's investments are held by the City's custodian bank in the City's name or the nominee name of custodian bank, as collateral for a reverse repurchase agreement with the counterpart's custodian banks or with a third party trustee, e.g. California State Treasurer's Office.

The Retirement Board contracts with 26 investment managers to oversee the CERS Trust Fund portfolio, which includes separate cash management as well as investments in corporate and government bonds, stocks, and real estate. This portfolio is therefore more diverse and of a longer-term nature than the City's cash pool. During Fiscal Year 1996, CERS achieved a realized return of 9.8% as compared to 8.42% in Fiscal Year 1995. This increase in realized return resulted from an increase in the rates of return available in the investment markets.

Risk Management. The City is self-insured for workers' compensation and long-term disability. The City of San Diego obtained insurance coverage for general liability claims in Fiscal Year 1991 after being self-insured for the previous six years. The City now has catastrophic coverage of \$22 million per occurrence with a \$3 million self-insured retention.

The workers' compensation and long-term disability programs are accounted for within the Internal Service Self Insurance Fund. They are funded by rate charges to the various departments. Annual rates are established that will collect the necessary monies to pay anticipated claims during the year. The City also accounts for the General Liability Reserve within the Internal Service Self Insurance Fund. Monies in this fund have accumulated from operating transfers of claims appropriations in excess of actual claims paid.

OTHER INFORMATION

Independent Audit. The City Charter requires an annual audit by independent certified public accountants. The accounting firm of Calderon, Jaham & Osborn, CPAs, was selected and awarded a 5-year contract by the City beginning Fiscal Year 1992. In addition to meeting the requirements set forth in the City Charter, the audit was also designed to meet the requirements of the federal Single Audit Act of 1984 and related OMB Circular A-128. The independent auditors' report on the general purpose financial statements and the combining, individual fund and account group financial statements and schedules is included in the financial section of this report. The independent auditors' reports related specifically to the Single Audit are included in a separate Single Audit Report.

In addition to the independent accountants, the City maintains its own Internal Audit Division. Along with its duty of assisting the independent accountants, they are responsible for strengthening and reviewing the City's internal controls. Internal Audit performs its own independent operational and financial audits of the City's many funds, departments, and divisions. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of all financial transactions.

GFOA Certificate of Achievement Award: The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of San Diego, California, for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1995. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

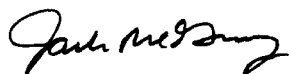
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such a CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

CSFMO Award: The California Society of Municipal Finance Officers (CSFMO) again awarded a Certificate for Outstanding Financial Reporting to the City of San Diego for its CAFR for the fiscal year ended June 30, 1995. In order to receive this "Outstanding Award," the City published an easily readable and efficiently organized CAFR. This report satisfied both generally accepted accounting principles and applicable legal requirements. A Certificate for Outstanding Financial Reporting is valid for a period of one year only. We believe our current report continues to meet the Certificate for Outstanding Financial Reporting requirements, and we are submitting it to the CSFMO.

Acknowledgments. The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the professional, efficient, and dedicated service of the staff of the City Auditor and Comptroller's Department. In particular, we would like to express our appreciation to members of the Accounting Division that contributed to the development of this report. We would also like to thank the Mayor and members of the City Council for their support and commitment to fiscal integrity and financial leadership.

Sincerely,



Jack McGrory
City Manager



Ed Ryan
City Auditor and Comptroller